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STATE OF MONTANA

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT SUBGRANT NUMBERS 76-56046, 76-56047, 76-56059, 76-56062, 76-56067, 76-56071, 76-56091, AND 30-6-101-10 RELATING TO THE EMPLOYMENT SECURITY DIVISION

Report on Examination of Financial Statements

Conducted Under Contract By
Ernst and Ernst, CPA's

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
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STATE OF MONTANA

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT SUBGRANT NUMBERS 76-56046, 76-56047, 76-56059, 76-56062, 76-56067, 76-56071, 76-56091, AND 30-6-101-10 RELATING TO THE EMPLOYMENT SECURITY DIVISION

Report on Examination of Financial Statements

Conducted Under Contract By
Ernst and Ernst, CPA's

76C-27

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JOSEPH J. CALNAN
ADMINISTRATION AND PROGRAM AUDITS
ELLEN FEAVER
FINANCIAL-COMPLIANCE AND CONTRACTED AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

October 13, 1977

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith are reports on the audit of the following CETA subgrants relating to the Employment Security Division:

76-56046
76-56047
76-56059
76-56062
76-56067
76-56071
76-56091
30-6-101-10

These audits were conducted by Ernst and Ernst, CPA's, under a contract between the firm and our office. The comments and recommendations contained in these reports represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written responses to the report recommendations are included in the back of this report.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, CPA
Legislative Auditor

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Summary of Recommendations

CETA Subgrant Number 76-56046

CETA Subgrant Number 76-56047

CETA Subgrant Number 76-56059

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CETA Subgrant Number 76-56067

CETA Subgrant Number 76-56071

CETA Subgrant Number 76-56091

CETA Subgrant Number 30-6-101-10

Agency Replies:

Governor's Employment and Training Council

Employment Security Division

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the reports and the audited agency's replies thereto and also as a ready reference to the supporting comments. The full replies of the Governor's Employment and Training Council and the Employment Security Division are included in the back of this report.

	Page
Subgrant Number 76-56046	
That greater care be exercised in the drawing of cash to match expenditures.	9
Agency Reply: Concur. See page 2.	
Subgrant Number 76-56047	
No specific recommendations were made, and no written response was solicited.	
Subgrant Numbers 76-56059, 76-56062, and 76-56067	
That the division improve its internal procedures to properly state cost accruals.	13, 12, and 12 of the respective reports
Agency Reply: Concur. See page 3.	
Subgrant Number 76-56071	
No specific recommendations were made, and no written responses were solicited.	
Subgrant Number 76-56091	
No specific recommendations were made, and no written responses were solicited.	
Subgrant Number 30-6-101-10	
That there be a greater degree of cooperation between the Department of Labor and the grantee.	10
Agency Reply: Concur. See page 7.	
That interrelationships between grants be avoided if at all possible.	11
Agency Reply: Do not concur. See page 7.	

AUDIT REPORT

CETA SUBGRANT NUMBER 76-56046 AWARDED TO
EMPLOYMENT SECURITY DIVISION - DEPARTMENT OF LABOR AND INDUSTRY

HELENA, MONTANA

SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976

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Ernst & Ernst

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January 30, 1977

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial and related program records of the CETA Subgrant number 76-56046 awarded to the Employment Security Division - Department of Labor and Industry (Subgrantee) for the period July 1, 1975 to September 30, 1976, including transactions to the final close out at October 29, 1976.

Our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, applicable to examinations of financial operations and reviews of compliance with applicable laws and regulations and the CETA financial audit guide issued by the U.S. Department of Labor. It included tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances.

The subgrant agreement was for $658,143.00 all of which was advanced to the subgrantee. Costs of the subgrantee totaled $595,039.37 from which audit samples were drawn. Schedule D lists no questionable expenditures disclosed by our sample. Schedules A, B, and C have been prepared on the accrual basis of accounting.

In our opinion, these schedules present fairly the financial information contained therein which relates to the subgrant for the period July 1, 1975 to September 30, 1976, including transactions to the final close out at October 29, 1976.

We have also reviewed the areas of Compliance and Internal Control and the findings resulting from our review are presented in Schedule E.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

Ernst & Ernst

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SCHEDULE A

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56046

STATUS OF FEDERAL FUNDS
SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976
(INCLUDING TRANSACTIONS TO THE FINAL CLOSE OUT AT OCTOBER 29, 1976)

Cash on Hand - July 1, 1975		$ -0-
Increases		
Federal Cash Received	$658,143.00	
Program Income	-0-	
Total Increases		658,143.00
Total Cash Available		658,143.00
Decreases		
Gross Disbursements	595,039.37	
Adjustments	-0-	
Total Decreases		595,039.37
Cash on Hand - at final close out (Due to Prime Sponsor)		$ 63,103.63

SCHEDULE B

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
STATEMENT OF ACCRUED EXPENDITURES
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	Cumulative Budget	Cash Disbursements	Accruals	Accrued Expenditures
Administration	$ 70,309.00	$ 71,273.95	$ -0-	$ 71,273.95
Training	447,420.00	355,189.00	44,963.00	400,152.00
Services	140,414.00	123,613.42	-0-	123,613.42
Total	$658,143.00	$550,076.37	$44,963.00	$595,039.37

SCHEDULE C

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
ACCRUED EXPENDITURES BY PROGRAM ACTIVITY
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	OJT	Total
Administration	$ 71,273.95	$ 71,273.95
Training	400,152.00	400,152.00
Services	123,613.42	123,613.42
Total Actual to Date	$595,039.37	$595,039.37
Total Planned to Date	$658,143.00	$658,143.00

SCHEDULE D

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUMMARY SCHEDULE OF QUESTIONABLE EXPENDITURES
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	Cumulative Budget	Accrued Expenditures	Amount Questioned
Administration	$ 70,309.00	$ 71,273.95	
Training	447,420.00	400,152.00	No costs questioned
Services	140,414.00	123,613.42	
Total	$658,143.00	$595,039.37	

EMPLOYMENT SECURITY DIVISION - DEPARTMENT OF LABOR AND INDUSTRY SUBGRANT NUMBER 76-56046 COMPLIANCE AND INTERNAL CONTROL FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

A. Summary of Auditor's Observations and Recommendations

As part of our examination, we made a study of the system of internal accounting and administrative control to the extent we considered necessary to evaluate the system as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal and administrative accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the period July 1, 1975 to September 30, 1976 would not necessarily disclose all weaknesses in the system. In our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations except as follows:

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56046
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

CETA Close Out Final Expenditure Report

The close out report reflected a cash balance of $108,066.63 owing to the prime sponsor; however, the actual amount owing was $63,103.63 after provision for the liability for accrued costs.

Comparison of Cash Receipts with Expenditures

In our comparison analysis related to the use of funds drawn for purposes of the program we noted that receipts from the sponsor tended to exceed disbursements on a monthly year to date basis for the first twelve months of the program. However, after taking into account accruals reported at the close of each month the drawing of funds to meet costs and the liability for accruals owing tended to be reasonable. In the last three months of the program the receipts and cash balances tended to exceed costs incurred plus the liability for accruals owing which, by the time of close out of the subgrant period, resulted in the refund owing back to the prime sponsor. While the excess cash situation does not appear to be too serious we nevertheless recommend that greater care be exercised in the drawing of cash to match expenditures in order that a greater degree of efficiency in the utilization of cash may be exercised.

B. Discussion of Audit Results

The results of the audit were discussed with Employment Security Department personnel who, we believe, concur with the foregoing recommendation.

This report is intended for use in connection with the administration of the CETA subgrant to which it refers and should not be used for any other purpose.

AUDIT REPORT

CETA SUBGRANT NUMBER 76-56047 AWARDED TO
EMPLOYMENT SECURITY DIVISION - DEPARTMENT OF LABOR AND INDUSTRY

HELENA, MONTANA

SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976

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Ernst & Ernst

2700 Seattle-First National Bank Bldg • 1001 Fourth Ave • Seattle, WA 98154 • Phone 206/622-0610

March 2, 1977

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial and related program records of the CETA Subgrant number 76-56047 awarded to the Employment Security Division - Department of Labor and Industry (Subgrantee) for the period July 1, 1975 to September 30, 1976, including transactions to the final close out at March 2, 1977.

Our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, applicable to examinations of financial operations and reviews of compliance with applicable laws and regulations and the CETA financial audit guide issued by the U. S. Department of Labor. It included tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances.

The subgrant agreement was for $1,178,676.68 of which $1,173,820.68 was advanced to the subgrantee. Costs of the subgrantee totaled $1,173,820.68 from which audit samples were drawn. Schedule D lists no questionable expenditures disclosed by our sample. Schedules A, B, and C have been prepared on the accrual basis of accounting.

In our opinion, these schedules present fairly the financial information contained therein which relates to the subgrant for the period July 1, 1975 to September 30, 1976, including transactions to the final close out at March 2, 1977.

We have also reviewed the areas of Compliance and Internal Control and the findings resulting from our review are presented in Schedule E.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

Ernst & Ernst

E&E

SCHEDULE A

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56047

STATUS OF FEDERAL FUNDS
SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976
(INCLUDING TRANSACTIONS TO THE FINAL CLOSE OUT AT MARCH 2, 1977)

Cash on Hand - July 1, 1975		$ -0-
Increases		
Federal Cash Received - Note 1	$1,173,820.68	
Program Income	-0-	
Total Increases		1,173,820.68
Total Cash Available		1,173,820.68
Decreases		
Gross Disbursements	1,173,820.68	
Adjustments	-0-	
Total Decreases		1,173,820.68
Cash on Hand - at final close out		$ -0-

Note 1 - Cash received includes a final close out payment of $19,478.68 received subsequent to September 30, 1976 as discussed in Schedule E.

SCHEDULE B

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
STATEMENT OF ACCRUED EXPENDITURES
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976
(INCLUDING TRANSACTIONS TO THE FINAL CLOSE OUT AT MARCH 2, 1977)

Cost Category	Cumulative Budget	Cash Disbursements	Accrued Expenditures
Administration	$ 128,537.78	$ 128,537.78	$ 128,537.78
Allowances	904,406.18	899,550.18	899,550.18
Services	145,732.72	145,732.72	145,732.72
Total	$1,178,676.68	$1,173,820.68	$1,173,820.68

SCHEDULE C

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
ACCRUED EXPENDITURES BY PROGRAM ACTIVITY
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	Classroom Training	Total
Administration	$ 128,537.78	$ 128,537.78
Allowances	899,550.18	899,550.18
Services	145,732.72	145,732.72
Total Actual to Date	$1,173,820.68	$1,173,820.68
Total Planned to Date	$1,178,676.68	$1,178,676.68

SCHEDULE D

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUMMARY SCHEDULE OF QUESTIONABLE EXPENDITURES
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	Cumulative Budget	Acrrued Expenditures	Amount Questioned
Administration	$ 128,537.78	$ 128,537.78	
Allowances	904,406.18	899,550.18	No costs questioned
Services	145,732.72	145,732.72	
Total	$1,178,676.68	$1,173,820.68	

EMPLOYMENT SECURITY DIVISION - DEPARTMENT OF LABOR AND INDUSTRY SUBGRANT NUMBER 76-56047 COMPLIANCE AND INTERNAL CONTROL FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

A. Summary of Auditor's Observations and Recommendations

As part of our examination, we made a study of the system of internal accounting and administrative control to the extent we considered necessary to evaluate the system as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal and administrative accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the period July 1, 1975 to September 30, 1976 would not necessarily disclose all weaknesses in the system. In our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations.

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56047
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Other matters are discussed below.

The subgrantee's final close out expenditure report was revised February 25, 1977 in order to reflect a revision of costs as a result of a $4,856.00 cost refund from an agency with which the subgrantee contracted for services and to also reflect an additional sum of $19,478.68 received from the prime sponsor. Thus, net program expenditures were equal to cash received from the prime sponsor, as noted in Schedule A.

In our comparison of cash receipts from the prime sponsor with program expenditures on an accumulative monthly basis we noted that there was a reasonably close correlation between the two except during the last half of August 1976 when the Department commenced drawing sufficient excess funds to accommodate completion of the program by the end of the subgrant period. We do not consider this to be a significant exception.

B. Discussion of Audit Results

The results of the audit were discussed with personnel of the Employment Security Department.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

AUDIT REPORT

CETA SUBGRANT NUMBER 76-56059 AWARDED TO
EMPLOYMENT SECURITY DIVISION - DEPARTMENT OF LABOR AND INDUSTRY

HELENA, MONTANA

SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976

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Ernst & Ernst

2700 Seattle-First National Bank Bldg • 1001 Fourth Ave • Seattle, WA 98154 • Phone 206/622-0610

February 3, 1977

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial and related program records of the CETA subgrant number 76-56059 awarded to the Employment Security Division - Department of Labor and Industry (Subgrantee) for the period July 1, 1975 to September 30, 1976, including transactions to the final close out at October 30, 1976. Such transactions represent expenditures incurred for discharge of cost accruals at September 30, 1976 or amounts due as of that date from various agencies with which the subgrantee contracted for services. The subgrant agreement was for $4,641,073.00 of which $3,431,911.34 was advanced to the subgrantee. Costs incurred under the subgrant totaled $3,175,851.28. These costs include $3,066,926.00 of costs incurred by 274 agencies with which the subgrantee contracted or made arrangements for services.

Our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, applicable to examinations of financial operations and reviews of compliance with applicable laws and regulations and the CETA financial audit guide issued by the U.S. Department of Labor. It included tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances, including audit samples drawn from $948,533.18 of the costs of the aforementioned agencies which were selected for audit. Schedules D and E list additional costs of $121,854.45 which should have been accrued but were not accrued in connection with close out of the subgrant period. Schedule D lists no questionable expenditures disclosed by our audit, however, reference is made to Schedule E for a discussion of various deficiencies and other matters which came to our attention in the course of our audit. Schedules A, B, and C have been prepared on the accrual basis of accounting.

In our opinion, except that accrued total costs should be $121,854.45 greater and the amount due to the prime sponsor should be $121,854.45 smaller, these schedules present fairly the financial information contained therein which relates to the subgrant for the period July 1, 1975 to September 30, 1976, including transactions to the final close out at October 30, 1976.

E&E

We have also reviewed the areas of Compliance and Internal Control and the findings resulting from our review are presented in Schedule E.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

Ernst & Ernst

SCHEDULE A

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56059

STATUS OF FEDERAL FUNDS
SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976
(INCLUDING TRANSACTIONS TO THE FINAL CLOSE OUT AT OCTOBER 30, 1976)

Cash on Hand - July 1, 1975		$ -0-
Increases		
Federal Cash Received	$3,431,911.34	
Program Income	-0-	
Total Increases		3,431,911.34
Total Cash Available		3,431,911.34
Decreases		
Gross Disbursements	3,175,851.28	
Adjustments	-0-	
Total Decreases		3,175,851.28
Cash on Hand - at date of close out (Due to Prime Sponsor)		$ 256,060.06

SCHEDULE B

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
STATEMENT OF ACCRUED EXPENDITURES
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	Cumulative Budget	Cash Disbursements	Accruals	Accrued Expenditures
Administration	$ 72,958.00	$ 51,622.57	$ -0-	$ 51,622.57
Wages	3,789,842.00	2,653,050.00	-0-	2,653,050.00
Fringe Benefits	669,238.00	413,876.00	-0-	413,876.00
Training	1,857.00	-0-	-0-	-0-
Services	107,178.00	57,302.71	-0-	57,302.71
Total	$4,641,073.00	$3,175,851.28	$ -0-	$3,175,851.28

SCHEDULE C

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
ACCRUED EXPENDITURES BY PROGRAM ACTIVITY
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	Public Service Employment	Total
Administration	$ 51,622.57	$ 51,622.57
Wages	2,653,050.00	2,653,050.00
Fringe Benefits	413,876.00	413,876.00
Training	-0-	-0-
Services	57,302.71	57,302.71
Total Actual to Date	$3,175,851.28	$3,175,851.28
Total Planned to Date	$4,641,073.00	$4,641,073.00

SCHEDULE

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUMMARY SCHEDULE OF QUESTIONABLE EXPENDITURES
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	Cumulative Budget	Accrued Expenditures	Amount Questioned	Schedule
Administration	$ 72,958.00	$ 51,622.57		
Wages	3,789,842.00	2,653,050.00	$121,854.45 Costs not Accrued	D-1
Fringe Benefits	669,238.00	413,876.00		
Training	1,857.00	-0-		
Services	107,178.00	57,302.71		
Total	$4,641,073.00	$3,175,851.28	$121,854.45	

SCHEDULE D-1

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
DETAILED SCHEDULE OF QUESTIONABLE EXPENDITURES
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

As discussed in Schedule E under the caption "Errors in Cost Transfers" which relates to an interrelationship of Public Service Employment subgrants which were administered by the subgrantee, costs in the amount of $121,854.45 were under accrued upon close out of the subgrant period. Details comprising cost accruals are contained in lists at the subgrantee's office together with a reconciliation of the above amount. The effect of this adjustment is as follows:

Accrued expenditures should be $121,854.45 greater. The cash balance returnable to the prime sponsor should be $121,854.45 smaller.

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56059
COMPLIANCE AND INTERNAL CONTROL
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

A. Summary of Auditor's Observations and Recommendations

As part of our examination, we made a study of the system of internal accounting and administrative control to the extent we considered necessary to evaluate the system as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal and administrative accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the period July 1, 1975 to September 30, 1976 would not necessarily disclose all weaknesses in the system. In our opinion, the internal accounting and administrative control procedures are in

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56059
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations except as follows.

Errors in Cost Transfers

Because of an interrelationship among three Public Service Employment subgrants which were administered under Titles I, VI and II of the CETA Act by the Employment Security Department and because of errors made in the accrual for the liability of costs incurred the following discussion is included in our separate reports with respect to Subgrant 76-56067 (Title I), Subgrant 76-56062 (Title VI), and Subgrant 76-56059 (Title II).

The Employment Security Division administered three separate subgrants for public service employment programs during the fifteen month period ended September 30, 1976. These subgrants were awarded to the Division under Titles I, II, and VI of the CETA Act. Funds available under Titles I and VI were exhausted prior to September 30, 1976 and, accordingly, the Division continued the program under Title II for which the prime sponsor provided the necessary funds.

We have been advised that the availability of additional funds to complete the programs under Titles I and VI were not under the control of the prime sponsor and the subgrantee. This in turn created certain cut off problems in the administration of all three subgrants. The Division could not make an exact cut-off of costs incurred under Titles I and VI in order that such costs would equal the subgrant funds received under the two subgrants. Therefore, it made the necessary transfers from Titles I and VI to Title II as described below.

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56059
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

	Title I Subgrant 76-56067	Title VI Subgrant 76-56062	Title II Subgrant 76-56059
Total costs incurred:			
Wages	$799,519.00	$6,440,338.00	$2,653,050.00
Fringe benefits	127,923.25	966,050.76	413,876.00
	927,442.25	7,406,388.76	3,066,926.00
Administration	7,820.95	78,043.80	51,622.57
Services	9,436.80	78,830.64	57,302.71
Other - training		271.80	
Total - per close out reports	$944,700.00	$7,563,535.00	$3,175,851.28
Wage and fringe benefit costs before cost transfers:			
Costs before transfers	$895,195.08	$7,290,078.27	$2,334,723.42
Plus accruals owing	42,806.74	222,421.09	615,539.74
Sundry adjustments		(7.30)	(.03)
	938,001.82	7,512,492.06	2,950,263.13
Transfers of costs:			
From Title I to Title II	(10,559.57)		10,559.57
From Title VI to Title II		(106,103.30)	106,103.30
Costs reported for wages and fringe benefits	$927,442.25	$7,406,388.76	$3,066,926.00

In calculating total wage and fringe benefit costs the Division also took into account the accruals owing under each title as noted above. However, various errors were made in the accruals which came to our attention as a result of our examination with the result that the cost transfers from Title I and Title VI to Title II were not properly made. Reconciliation of the amounts involved follows:

SCHEDULE E

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56059
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

	Title I Subgrant 76-56067	Title VI Subgrant 76-56062	Title II Subgrant 76-56059	Total
Correct amounts of accruals which should have been included in costs	$39,574.33	$254,964.27	$708,083.42	$1,002,622.02
Amounts reported and included in costs	42,806.74	222,421.09	615,539.74	880,767.57
Under (over) accrued	$(3,232.41)	$ 32,543.18	$ 92,543.68	$ 121,854.45

If proper accruals of costs for the Title I and Title VI subgrants had been recorded there would have been no effects on their total reported costs because cost transfers to Title II would also have been correspondingly adjusted by the same amounts. Total cost accruals recorded at September 30, 1976 amounted to $880,767.57 whereas the correct amount was $1,002,622.02. Because the program previously carried on by the Title I and Title VI subgrants was transferred to the Title II subgrant, the underaccrual of $121,854.45 affects Title II costs only, as follows:

Title II costs should be $121,854.45 greater.

Title II cash balance returnable to the prime sponsor should be $121,854.45 smaller.

While we recognize the fact that the Employment Security Division had undertaken a very substantial task in administering the three public service employment subgrants which exceeded $11,500,000 and that under such a large program errors were perhaps bound to occur we nevertheless recommend that the Division improve its internal procedures to properly state cost accruals in order to avoid problems similar to those described above. In discussing this matter with the Division's personnel we were advised that changes have been implemented in the accounting system which will better enable the Division to properly determine accruals.

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56059
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Utilization of Subgrant Funds

In a comparison of cash receipts from the prime sponsor with expenditures plus the liability for accruals owing at the end of each month on a year to date basis we noted that for a portion of the period from July 1, 1975 to November 30,1975 expenditures plus accruals tended to lag behind receipts. For the remainder of this period to August 31, 1976 expenditures plus accruals tended to exceed receipts or were approximately equal to receipts. In September 1976, the subgrantee drew funds rather heavily in order to complete the program requirements, however, receipts exceeded expenditures plus the liability for accruals by close out of the subgrant period with the result that $134,205.61 was returnable to the prime sponsor. This amount is a corrected figure based upon that reported in the subgrantee's close out report, $256,060.06, less the accrual correction earlier described of $121,854.45. Thus, it generally appears that the efficiency with which the subgrantee utilized subgrant funds after taking into account the transfer problems between this subgrant and subgrants under Titles I and VI, as earlier discussed, is fairly reasonable although the subgrantee might possibly have exercised improved effectiveness in the drawing of all funds received under the three titles related to the three public service employment subgrants.

Cost Reportings by Agencies with which the Subgrantee Contracts for Services

In our audit of records, cost reports, and review of personnel files related to the agencies which we selected in our audit sample we noted the following deficiencies for certain payroll periods tested.

1. Agencies often do not properly prepare their monthly reports to the subgrantee.

2. Agencies do not properly explain why contract or budgeted wages paid exceed the contract or budgeted limits although such wages are verified by the Division's personnel.

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56059
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

3. Agencies often do not explain the reason why compensation paid for particular persons employed exceeds the P.S.E. limit of $833.33 per month although there could be a satisfactory explanation such as payment for termination pay due or sick leave and vacation time earned. These items are normally analyzed and evaluated by the Division's personnel.

4. Agencies sometimes do not show job classification for people for whose wages they seek reimbursement.

5. Agencies sometimes do not properly date their cost reports.

6. Agencies often do not sign their cost reports.

7. Agencies many times do not show the percentage for the various wage factors used to calculate fringe benefits related to wages.

8. Agencies most of the time do not show on their cost reports the numbers of hours worked by enrollees nor their authorized rate of compensation.

9. Persons at the Division office who are assigned to audit invoices or cost statements from agencies for payment often do not initial such items prior to processing them for payment. We have been advised, however, that this is currently being done as a regular procedure.

The foregoing deficiencies in reportings by agencies tend to create, we believe, an extra burden upon the subgrantee in evaluating cost reports for reimbursement and in evaluating the reasonableness and propriety of costs for which agencies seek reimbursement.

In reviewing these matters with the Division's personnel we have noted that improvements in the cost reporting by agencies have been implemented and that standard invoice and report forms have been revised to provide for additional information and explanations in order to correct the deficiencies noted above and to enable agencies to properly report their costs for audit and evaluation at the Division's Helena office.

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56059
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

B. Discussion of Audit Results

The foregoing matters were discussed with personnel at the Division's Helena office who, we believe, concur with our comments.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

AUDIT REPORT

CETA SUBGRANT NUMBER 76-56062 AWARDED TO
EMPLOYMENT SECURITY DIVISION - DEPARTMENT OF LABOR AND INDUSTRY

HELENA, MONTANA

SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976

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Ernst & Ernst

2700 Seattle-First National Bank Bldg • 1001 Fourth Ave • Seattle, WA 98154 • Phone 206/622-0610

February 3, 1977

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial and related program records of the CETA Subgrant number 76-56062 awarded to the Employment Security Division - Department of Labor and Industry (Subgrantee) for the period July 1, 1975 to September 30, 1976, including transactions to the final close out at October 30, 1976. Such transactions represent expenditures incurred for discharge of cost accruals at September 30, 1976 or amounts due as of that date from various agencies with which the subgrantee contracted for services. The subgrant agreement was for $7,563,535.00 all of which was advanced to the subgrantee. Costs incurred under the subgrant totaled $7,563,535.00. These costs include $7,406,388.76 of costs incurred by 201 agencies with which the subgrantee contracted or made arrangements for services.

Our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, applicable to examinations of financial operations and reviews of compliance with applicable laws and regulations and the CETA financial audit guide issued by the U.S. Department of Labor. It included tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances, including audit samples drawn from $2,035,207.65 of the costs of the aforementioned agencies which were selected for audit. Schedule D lists no questionable costs disclosed by our audit, however, reference is made to Schedule E for a discussion of the various deficiencies and other matters which came to our attention in the course of our audit. Schedules A, B, and C have been prepared on the accrual basis of accounting.

In our opinion, these schedules present fairly the financial information contained therein for the period July 1, 1975 to September 30, 1976, including transactions to the final close out at October 30, 1976.

E&E

We have also reviewed the areas of Compliance and Internal Control and the findings resulting from our review are presented in Schedule E.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

Ernst & Ernst

SCHEDULE A

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56062

STATUS OF FEDERAL FUNDS
SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976
(INCLUDING TRANSACTIONS TO THE FINAL CLOSE OUT AT OCTOBER 30, 1976)

Cash on Hand - July 1, 1975		$ -0-
Increases		
Federal Cash Received	$7,563,535.00	
Program Income	-0-	
Total Increases		7,563,535.00
Total Cash Available		7,563.535.00
Decreases		
Gross Disbursements	7,563,535.00	
Adjustments	-0-	
Total Decreases		7,563,535.00
Cash on Hand - September 30, 1976		$ -0-

SCHEDULE B

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
STATEMENT OF ACCRUED EXPENDITURES
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	Cumulative Budget	Cash Disbursements	Accruals	Accrued Expenditures
Administration	$ 82,875.00	$ 78,043.80	$ -0-	$ 78,043.80
Wages	6,335,866.00	6,440,338.00	-0-	6,440,338.00
Fringe Benefits	947,414.00	966,050.76	-0-	966,050.76
Training	-0-	271.80	-0-	271.80
Services	197,380.00	78,830.64	-0-	78,830.64
Total	$7,563,535.00	$7,563,535.00	$ -0-	$7,563,535.00

SCHEDULE C

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
ACCRUED EXPENDITURES BY PROGRAM ACTIVITY
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	Public Service Employment	Total
Administration	$ 78,043.80	$ 78,043.80
Wages	6,440,338.00	6,440,338.00
Fringe Benefits	966,050.76	966,050.76
Training	271.80	271.80
Services	78,830.64	78,830.64
Total Actual to Date	$7,563,535.00	$7,563,535.00
Total Planned to Date	$7,563,535.00	$7,563,535.00

SCHEDULE I

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUMMARY SCHEDULE OF QUESTIONABLE EXPENDITURES
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	Cumulative Budget	Accrued Expenditures	Amount Questioned
Administration	$ 82,875.00	$ 78,043.80	(1) No amounts questioned, however, refer to Schedule E for a discussion of various deficiencies and other matters.
Wages	6,335,866.00	6,440,338.00	
Fringe Benefits	947,414.00	966,050.76	
Training	-0-	271.80	(2) Accrued costs should have been $32,543.18 greater, however, this amount would have been offset by a related cost transfer to another subgrant as discussed in Schedule E.
Services	197,380.00	78,830.64	
Total	$7,563,535.00	$7,563,535.00	

EMPLOYMENT SECURITY DIVISION - DEPARTMENT OF LABOR AND INDUSTRY SUBGRANT NUMBER 76-56062 COMPLIANCE AND INTERNAL CONTROL FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

A. Summary of Auditor's Observations and Recommendations

As part of our examination, we made a study of the system of internal accounting and administrative control to the extent we considered necessary to evaluate the system as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal and administrative accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the period July 1, 1975 to September 30, 1976 would not necessarily disclose all weaknesses in the system. In our opinion, the internal accounting and administrative control procedures are in

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56062
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations except as follows.

Errors in Cost Transfers

Because of an interrelationship among three Public Service Employment subgrants which were administered under Titles I, VI and II of the CETA Act by the Employment Security Department and because of errors made in the accrual for the liability of costs incurred the following discussion is included in our separate reports with respect to Subgrant 76-56067 (Title I), Subgrant 76-56062 (Title VI), and Subgrant 76-56059 (Title II).

The Employment Security Division administered three separate subgrants for public service employment programs during the fifteen month period ended September 30, 1976. These subgrants were awarded to the Division under Titles I, II, and VI of the CETA Act. Funds available under Titles I and VI were exhausted prior to September 30, 1976 and, accordingly, the Division continued the program under Title II for which the prime sponsor provided the necessary funds.

We have been advised that the availability of additional funds to complete the program under Titles I and VI were not under the control of the prime sponsor and the subgrantee. This in turn created certain cut off problems in the administration of all three subgrants. The Division could not make an exact cut-off of costs incurred under Titles I and VI in order that such costs would equal the subgrant funds received under the two subgrants. Therefore, it made the necessary transfers from Titles I and VI to Title II as described below.

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56062
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

	Title I Subgrant 76-56067	Title VI Subgrant 76-56062	Title II Subgrant 76-56059
Total costs incurred:			
Wages	$799,519.00	$6,440,338.00	$2,653,050.00
Fringe benefits	127,923.25	966,050.76	413,876.00
	927,442.25	7,406,388.76	3,066,926.00
Administration	7,820.95	78,043.80	51,622.57
Services	9,436.80	78,830.64	57,302.71
Other - training		271.80	
Total - per close out reports	$944,700.00	$7,563,535.00	$3,175,851.28
Wage and fringe benefit costs before cost transfers:			
Costs before transfers	$895,195.08	$7,290,078.27	$2,334,723.42
Plus accruals owing	42,806.74	222,421.09	615,539.74
Sundry adjustments		(7.30)	(.03)
	938,001.82	7,512,492.06	2,950,263.13
Transfers of costs:			
From Title I to Title II	(10,559.57)		10,559.57
From Title VI to Title II		(106,103.30)	106,103.30
Costs reported for wages and fringe benefits	$927,442.25	$7,406,388.76	$3,066,926.00

In calculating total wage and fringe benefit costs the Division also took into account the accruals owing under each title as noted above. However, various errors were made in the accruals which came to our attention as a result of our examination with the result that the cost transfers from Title I and Title VI to Title II were not properly made. Reconciliation of the amounts involved follows:

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56062
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

	Title I Subgrant 76-56067	Title VI Subgrant 76-56062	Title II Subgrant 76-56059	Total
Correct amounts of accruals which should have been included in costs	$39,574.33	$254,964.27	$708,083.42	$1,002,622.02
Amounts reported and included in costs	42,806.74	222,421.09	615,539.74	880,767.57
Under (over) accrued	$(3,232.41)	$ 32,543.18	$ 92,543.68	$ 121,854.45

If proper accruals of costs for the Title I and Title VI subgrants had been recorded there would have been no effects on their total reported costs because cost transfers to Title II would also have been correspondingly adjusted by the same amounts. Total cost accruals recorded at September 30, 1976 amounted to $880,767.57 whereas the correct amount was $1,002,622.02. Because the program previously carried on by the Title I and Title VI subgrants was transferred to the Title II subgrant, the underaccrual of $121,854.45 affects Title II costs only, as follows:

Title II costs should be $121,854.45 greater.

Title II cash balance returnable to the prime sponsor should be $121,854.45 smaller.

While we recognize the fact that the Employment Security Division had undertaken a very substantial task in administering the three public service employment subgrants which exceeded $11,500,000 and that under such a large program errors were perhaps bound to occur we nevertheless recommend that the Division improve its internal procedures to properly state cost accruals in order to avoid problems similar to those described above. In discussing this matter with the Division's personnel we were advised that changes have been implemented in the accounting system which will better enable the Division to properly determine accruals.

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56062
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Utilization of Subgrant Funds

In a comparison of cash receipts from the prime sponsor with expenditures plus the liability for accruals owing at the end of each month on a year to date basis we noted that the total of expenditures and accruals during the first ten months of the program tended to lag behind receipts which appeared to be a normal situation since accruals are paid after the end of each month. During the last five months of the program receipts were approximately equal to the total of expenditures and accruals. Thus, it appears that the subgrantee's use of funds was handled in a reasonably effective manner.

Cost Reportings by Agencies with which the Subgrantee Contracts for Services

In our audit of records, cost reports, and review of personnel files related to the agencies which we selected in our audit sample we noted the following deficiencies for certain payroll periods tested.

1. Agencies often do not properly prepare their monthly reports to the subgrantee.

2. Agencies do not properly explain why contract or budgeted wages paid exceed the contract or budgeted limits although such wages are verified by the Division's personnel.

3. Agencies often do not explain the reason why compensation paid for particular persons employed exceeds the P.S.E. limit of $833.33 per month although there could be a satisfactory explanation such as payment for termination pay due or sick leave and vacation time earned. These items are normally analyzed and evaluated by the Division's personnel.

4. Agencies sometimes do not show job classification for people for whose wages they seek reimbursement.

5. Agencies sometimes do not properly date their cost reports.

6. Agencies often do not sign their cost reports.

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56062
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

7. Agencies many times do not show the percentage for the various wage factors used to calculate fringe benefits related to wages.

8. Agencies most of the time do not show on their cost reports the numbers of hours worked by enrollees nor their authorized rate of compensation.

9. Persons at the Division office who are assigned to audit invoices or cost statements from agencies for payment often do not initial such items prior to processing them for payment. We have been advised, however, that this is currently being done as a regular procedure.

The foregoing deficiencies in reportings by agencies tend to create, we believe, an extra burden upon the subgrantee in evaluating cost reports for reimbursement and in evaluating the reasonableness and propriety of costs for which agencies seek reimbursement.

In reviewing these matters with the Division's personnel we have noted that improvements in the cost reporting by agencies have been implemented and that standard invoice and report forms have been revised to provide for additional information and explanations in order to correct the deficiencies noted above and to enable agencies to properly report their costs for audit and evaluation at the Division's Helena office.

B. Discussion of Audit Results

The foregoing matters were discussed with personnel at the Division's Helena office who, we believe, concur with our comments.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

AUDIT REPORT

CETA SUBGRANT NUMBER 76-56067 AWARDED TO
EMPLOYMENT SECURITY DIVISION - DEPARTMENT OF LABOR AND INDUSTRY

HELENA, MONTANA

SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976

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Ernst & Ernst

2700 Seattle-First National Bank Bldg • 1001 Fourth Ave • Seattle, WA 98154 • Phone 206/622-0610

February 3, 1977

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial and related program records of the CETA Subgrant number 76-56067 awarded to the Employment Security Division - Department of Labor and Industry (Subgrantee) for the period July 1, 1975 to September 30, 1976, including transactions to the final close out at October 30, 1976. Such transactions represent expenditures incurred for discharge of cost accruals at September 30, 1976 or amounts due as of that date from various agencies with which the subgrantee contracted for services. The subgrant agreement was for $944,700.00 all of which was advanced to the subgrantee. Costs incurred under the subgrant totaled $944,700.00. These costs include $927,442.25 of costs incurred by 93 agencies with which the subgrantee contracted or made arrangements for services.

Our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, applicable to examinations of financial operations and reviews of compliance with applicable laws and regulations and the CETA financial audit guide issued by the U.S. Department of Labor. It included tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances, including audit samples drawn from $90,537.73 of the costs of the aforementioned agencies which were selected for audit. Schedule D lists no questionable costs disclosed by our audit, however, reference is made to Schedule E for a discussion of various deficiencies and other matters which came to our attention in the course of our audit. Schedules A, B, and C have been prepared on the accrual basis of accounting.

In our opinion, these schedules present fairly the financial information contained therein for the period July 1, 1975 to September 30, 1976, including transactions to the final close out at October 30, 1976.

E&E

We have also reviewed the areas of Compliance and Internal Control and the findings resulting from our review are presented in Schedule E.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

Ernst + Ernst

SCHEDULE A

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56067

STATUS OF FEDERAL FUNDS
SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976
(INCLUDING TRANSACTIONS TO THE FINAL CLOSE OUT AT OCTOBER 30, 1976)

Cash on Hand - July 1, 1975		$ -0-
Increases		
Federal Cash Received	$944,700.00	
Program Income	-0-	
Total Increases		944,700.00
Total Cash Available		944,700.00
Decreases		
Gross Disbursements	944,700.00	
Adjustments	-0-	
Total Decreases		944,700.00
Cash on Hand - at final close out		$ -0-

SCHEDULE B

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
STATEMENT OF ACCRUED EXPENDITURES
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	Cumulative Budget	Cash Disbursements	Accruals	Accrued Expenditures
Administration	$ 6,875.00	$ 7,820.95	$ -0-	$ 7,820.95
Wages	792,683.00	799,519.00	-0-	799,519.00
Fringe Benefits	129,042.00	127,923.25	-0-	127,923.25
Services	16,100.00	9,436.80	-0-	9,436.80
Total	$944,700.00	$944,700.00	$ -0-	$944,700.00

SCHEDULE C

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
ACCRUED EXPENDITURES BY PROGRAM ACTIVITY
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	Public Service Employment	Total
Administration	$ 7,820.95	$ 7,820.95
Wages	799,519.00	799,519.00
Fringe Benefits	127,923.25	127,923.25
Services	9,436.80	9,436.80
Total Actual to Date	$944,700.00	$944,700.00
Total Planned to Date	$944,700.00	$944,700.00

EMPLOYMENT SECURITY DIVISION - DEPARTMENT OF LABOR AND INDUSTRY
SUMMARY SCHEDULE OF QUESTIONABLE EXPENDITURES
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	Cumulative Budget	Accrued Expenditures	Amount Questioned
Administration	$ 6,875.00	$ 7,820.95	(1) No amounts questioned, however, refer to Schedule E for a discussion of various deficiencies and other matters.
Wages	792,683.00	799,519.00	
Fringe Benefits	129,042.00	127,923.25	
Services	16,100.00	9,436.80	(2) Accrued costs should have been $3,232.41 less, however, this amount would have been offset by a related decrease in the cost transfer to another subgrant as discussed in Schedule E.
Total	$944,700.00	$944,700.00	

SCHEDULE E

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56067
COMPLIANCE AND INTERNAL CONTROL
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

A. Summary of Auditor's Observations and Recommendations

As part of our examination, we made a study of the system of internal accounting and administrative control to the extent we considered necessary to evaluate the system as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal and administrative accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the period July 1, 1975 to September 30, 1976 would not necessarily disclose all weaknesses in the system. In our opinion, the internal accounting and administrative control procedures are in

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56067
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations except for certain matters which came to our attention as described below.

Errors in Cost Transfers

Because of an interrelationship among three Public Service Employment subgrants which were administered under Titles I, VI and II of the CETA Act by the Employment Security Department and because of errors made in the accrual for the liability of costs incurred the following discussion is included in our separate reports with respect to Subgrant 76-56067 (Title I), Subgrant 76-56062 (Title VI), and Subgrant 76-56059 (Title II).

The Employment Security Division administered three separate subgrants for public service employment programs during the fifteen month period ended September 30, 1976. These subgrants were awarded to the Division under Titles I, II, and VI of the CETA Act. Funds available under Titles I and VI were exhausted prior to September 30, 1976 and, accordingly, the Division continued the program under Title II for which the prime sponsor provided the necessary funds.

We have been advised that the availability of additional funds to complete the program under Titles I and VI were not under the control of the prime sponsor and the subgrantee. This in turn created certain cut off problems in the administration of all three subgrants.

The Division could not make an exact cut-off of costs incurred under Titles I and VI in order that such costs would equal the subgrant funds received under the two subgrants. Therefore, it made the necessary transfers from Titles I and VI to Title II as described below.

SCHEDULE E

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56067
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

	Title I Subgrant 76-56067	Title VI Subgrant 76-56062	Title II Subgrant 76-56059
Total costs incurred:			
Wages	$799,519.00	$6,440,338.00	$2,653,050.00
Fringe benefits	127,923.25	966,050.76	413,876.00
	927,442.25	7,406,388.76	3,066,926.00
Administration	7,820.95	78,043.80	51,622.57
Services	9,436.80	78,830.64	57,302.71
Other - training		271.80	
Total - per close out reports	$944,700.00	$7,563,535.00	$3,175,851.28
Wage and fringe benefit costs before cost transfers:			
Costs before transfers	$895,195.08	$7,290,078.27	$2,334,723.42
Plus accruals owing	42,806.74	222,421.09	615,539.74
Sundry adjustments		(7.30)	(.03)
	938,001.82	7,512,492.06	2,950,263.13
Transfers of costs:			
From Title I to Title II	(10,559.57)		10,559.57
From Title VI to Title II		(106,103.30)	106,103.30
Costs reported for wages and fringe benefits	$927,442.25	$7,406,388.76	$3,066,926.00

In calculating total wage and fringe benefit costs the Division also took into account the accruals owing under each title as noted above. However, various errors were made in the accruals which came to our attention as a result of our examination with the result that the cost transfers from Title I and Title VI to Title II were not properly made. Reconciliation of the amounts involved follows:

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56067
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

	Title I Subgrant 76-56067	Title VI Subgrant 76-56062	Title II Subgrant 76-56059	Total
Correct amounts of accruals which should have been included in costs	$39,574.33	$254,964.27	$708,083.42	$1,002,622.02
Amounts reported and included in costs	42,806.74	222,421.09	615,539.74	880,767.57
Under (over) accrued	$(3,232.41)	$ 32,543.18	$ 92,543.68	$ 121,854.45

If proper accruals of costs for the Title I and Title VI subgrants had been recorded there would have been no effects on their total reported costs because cost transfers to Title II would also have been correspondingly adjusted by the same amounts. Total cost accruals recorded at September 30, 1976 amounted to $880,767.57 whereas the correct amount was $1,002,622.02. Because the program previously carried on by the Title I and Title VI subgrants was transferred to the Title II subgrant, the underaccrual of $121,854.45 affects Title II costs only, as follows:

Title II costs should be $121,854.45 greater.

Title II cash balance returnable to the prime sponsor should be $121,854.45 smaller.

While we recognize the fact that the Employment Security Division had undertaken a very substantial task in administering the three public service employment subgrants which exceeded $11,500,000 and that under such a large program errors were perhaps bound to occur we nevertheless recommend that the Division improve its internal procedures to properly state cost accruals in order to avoid problems similar to those described above. In discussing this matter with the Division's personnel we were advised that changes have been implemented in the accounting system which will better enable the Division to properly determine accruals.

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56067
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Reportings by Agencies with which the Subgrantee Contracts for Services

In our audit of records, cost reports, and review of personnel files related to the agencies which we selected in our audit sample we noted the following deficiencies for certain payroll periods tested.

1. Agencies often do not properly prepare their monthly reports to the subgrantee.

2. Agencies do not properly explain why contract or budgeted wages paid exceed the contract or budgeted limits although such wages are verified by the Division's personnel.

3. Agencies often do not explain the reason why compensation paid for particular persons employed exceeds the P.S.E. limit of $833.33 per month although there could be a satisfactory explanation such as payment for termination pay due or sick leave and vacation time earned. These items are normally analyzed and evaluated by the Division's personnel.

4. Agencies sometimes do not show job classification for people for whose wages they seek reimbursement.

5. Agencies sometimes do not properly date their cost reports.

6. Agencies often do not sign their cost reports.

7. Agencies many times do not show the percentage for the various wage factors used to calculate fringe benefits related to wages.

8. Agencies most of the time do not show on their cost reports the numbers of hours worked by enrollees nor their authorized rate of compensation.

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56067
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

9. Persons at the Division office who are assigned to audit invoices or cost statements from agencies for payment often do not initial such items prior to processing them for payment. We have been advised, however, that this is currently being done as a regular procedure.

The foregoing deficiencies in reportings by agencies tend to create, we believe, an extra burden upon the subgrantee in evaluating cost reports for reimbursement and in evaluating the reasonableness and propriety of costs for which agencies seek reimbursement.

In reviewing these matters with the Division's personnel we have noted that improvements in the cost reporting by agencies have been implemented and that standard invoice and report forms have been revised to provide for additional information and explanations in order to correct the deficiencies noted above and to enable agencies to properly report their costs for audit and evaluation at the Division's Helena office.

B. Discussion of Audit Results

The foregoing matters were discussed with personnel at the Division's Helena office who, we believe, concur with our comments.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

AUDIT REPORT

CETA SUBGRANT NUMBER 76-56071 AWARDED TO
MANPOWER COUNCIL - CONCENTRATED EMPLOYMENT PROGRAM

HELENA, MONTANA

SUBGRANT PERIOD FROM JANUARY 1, 1976 TO SEPTEMBER 30, 1976

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Ernst & Ernst

2700 Seattle-First National Bank Bldg • 1001 Fourth Ave • Seattle, WA 98154 • Phone 206/622-0610

January 30, 1977

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial and related program records of the CETA subgrant number 76-56071 awarded to the Manpower Council - Concentrated Employment Program (Subgrantee) for the period January 1, 1976 to September 30, 1976.

Our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, applicable to examinations of financial operations and reviews of compliance with applicable laws and regulations and the CETA financial audit guide issued by the U.S. Department of Labor. It included tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances.

The subgrant agreement was for $352,500.00 all of which was advanced to the subgrantee. Costs of the subgrant totaled $352,500.00 from which audit samples were drawn. Schedule D lists no questionable expenditures disclosed by our sample. Schedules A, B, and C have been prepared on the accrual basis of accounting.

In our opinion, these schedules present fairly the financial information contained therein which relates to the subgrant for the period January 1, 1976 to September 30, 1976.

We have also reviewed the areas of Compliance and Internal Control and the findings resulting from our review are presented in Schedule E.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

Ernst & Ernst

E&E

SCHEDULE A

MANPOWER COUNCIL -
CONCENTRATED EMPLOYMENT PROGRAM
SUBGRANT NUMBER 78-56071

STATUS OF FEDERAL FUNDS
FROM JANUARY 1, 1976 TO SEPTEMBER 30, 1976

Cash on Hand - January 1, 1976		$ -0-
Increases		
Federal Cash Received	$352,500	
Program Income	-0-	
Total Increases		352,500
Total Cash Available		352,500
Decreases		
Gross Disbursements	352,500	
Adjustments	-0-	
Total Decreases		352,500
Cash on Hand - September 30, 1976		$ -0-

SCHEDULE B

MANPOWER COUNCIL -
CONCENTRATED EMPLOYMENT PROGRAM
STATEMENT OF ACCRUED EXPENDITURES
FROM JANUARY 1, 1976 THROUGH SEPTEMBER 30, 1976

Cost Category	Cumulative Budget	Cash Disbursements	Accruals	Accrued Expenditures
Allowances	$277,242.00	$285,062.22	$-0-	$285,062.22
Training	75,258.00	67,437.78	-0-	67,437.78
Total	$352,500.00	$352,500.00	$-0-	$352,500.00

SCHEDULE C

MANPOWER COUNCIL -
CONCENTRATED EMPLOYMENT PROGRAM
ACCRUED EXPENDITURES BY PROGRAM ACTIVITY
FROM JANUARY 1, 1976 THROUGH SEPTEMBER 30, 1976

Cost Category	Classroom Training	Total
Allowances	$285,062.22	$285,062.22
Training	67,437.78	67,437.78
Total Actual to Date	$352,500.00	$352,500.00
Total Planned to Date	$352,500.00	$352,500.00

SCHEDULE D

MANPOWER COUNCIL -
CONCENTRATED EMPLOYMENT PROGRAM
SUMMARY SCHEDULE OF QUESTIONABLE EXPENDITURES
FOR THE PERIOD JANUARY 1, 1976 THROUGH SEPTEMBER 30, 1976

Cost Category	Cumulative Budget	Accrued Expenditures	Amount Questioned
Allowances	$277,242.00	$285,062.22	
Training	75,258.00	67,437.78	No amounts questioned
Total	$352,500.00	$352,500.00	

MANPOWER COUNCIL - CONCENTRATED EMPLOYMENT PROGRAM
SUBGRANT NUMBER 76-56071
COMPLIANCE AND INTERNAL CONTROL
FOR THE PERIOD JANUARY 1, 1976 THROUGH SEPTEMBER 30, 1976

A. Summary of Auditor's Observations and Recommendations

As part of our examination, we made a study of the system of internal accounting and administrative control to the extent we considered necessary to evaluate the system as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal and administrative accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the period January 1, 1976 to September 30, 1976 would not necessarily disclose all weaknesses in the system. In our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations. Additional comments follow.

MANPOWER COUNCIL - CONCENTRATED EMPLOYMENT PROGRAM
SUBGRANT NUMBER 76-56071
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE PERIOD JANUARY 1, 1976 THROUGH SEPTEMBER 30, 1976

The Employment Security Division coordinated the administration of this subgrant 76-56071 with a similar grant, number 30-6-101-10, awarded to it by the U.S. Department of Labor, Employment and Training Administration, Region VIII, for a Montana Rural CETA Comprehensive Employment Program. This latter grant covered the period from August 1, 1975 to September 30, 1976 whereas subgrant 76-56071 covered the period from January 1, 1976 to September 30, 1976.

Because the accounting for the two grants was likewise coordinated by the Employment Security Division we performed our audit of the two as a single unit rather than as two separate units. However, we reviewed the Division's reconciliation of the funds and costs related to the two grants in connection with our review of close out reports prepared as of the close of the grant periods.

The Division did not commence receiving funds for subgrant 76-56071 until April 30, 1976 although costs were incurred prior to that date. Funds totaling $1,042,779.67 for grant 30-6-101-10 were generally received throughout the grant period.

We have no reason to believe that the Division's reconciliation of costs incurred under the two grants was not fairly presented in its close out reports. However, we did note a few minor deficiencies which we do not consider to be important.

B. Discussion of Audit Results

The results of our audit were discussed with Division personnel.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

AUDIT REPORT

CETA SUBGRANT NUMBER 76-56091 AWARDED TO
EMPLOYMENT SECURITY DIVISION - DEPARTMENT OF LABOR AND INDUSTRY

HELENA, MONTANA

SUBGRANT PERIOD FROM JUNE 1, 1976 TO DECEMBER 31, 1976

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Ernst & Ernst

2700 Seattle-First National Bank Bldg • 1001 Fourth Ave • Seattle, WA 98154 • Phone 206/622-0610

April 7, 1977

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial and related program records of the CETA Subgrant number 76-56091 awarded to the Employment Security Division - Department of Labor and Industry (Subgrantee) for the period June 1, 1976 to December 31, 1976, including transactions to the final close out at March 29, 1977. Such transactions represent expenditures incurred for discharge of cost accruals at December 31, 1976 or amounts due as of that date from various agencies with which the subgrantee contracted for services. The subgrant agreement was for $1,312,323.00 of which $1,011,000.00 was advanced to the subgrantee. Costs incurred under the subgrant totaled $858,248.37. The subgrantee executed contracts or made arrangements with 71 agencies for services whose costs totaled $819,363.05.

Our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, applicable to examinations of financial operations and reviews of compliance with applicable laws and regulations and the CETA financial audit guide issued by the U.S. Department of Labor. It included tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances including audit samples drawn from $236,794.42 of costs of agencies selected for audit. Schedule D lists no questionable expenditures. Schedules A, B, and C have been prepared on the accrual basis of accounting.

In our opinion, these schedules present fairly the financial information contained therein which relates to the subgrant for the period June 1, 1976 to December 31, 1976, including transactions to the final close out at March 29, 1977.

We have also reviewed the areas of Compliance and Internal Control and the findings resulting from our review are presented in Schedule E.

This report is intended for use in connection with the subgrant to which it refers and should not be used for any other purpose.

Ernst & Ernst

E&E

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56091

STATUS OF FEDERAL FUNDS
SUBGRANT PERIOD FROM JUNE 1, 1976 TO DECEMBER 31, 1976
(INCLUDING TRANSACTIONS TO FINAL CLOSE OUT AT MARCH 29, 1977)

Cash on Hand - June 1, 1976		$ -0-
Increases		
Federal Cash Received - Note 1	$1,011,000.00	
Program Income	-0-	
Total Increases		1,011,000.00
Total Cash Available		1,011,000.00
Decreases		
Gross Disbursements	858,248.37	
Adjustments	-0-	
Total Decreases		858,248.37
Cash on Hand - at final close out		$ 152,751.63

Note 1 - Cash received includes $40,000.00 received January 11, 1977.

SCHEDULE B

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
STATEMENT OF ACCRUED EXPENDITURES
SUBGRANT PERIOD FROM JUNE 1, 1976 THROUGH DECEMBER 31, 1976
(INCLUDING TRANSACTIONS TO THE FINAL CLOSE OUT AT MARCH 29, 1977)

Cost Category	Cumulative Budget	Cash Disbursements	Accruals	Accrued Expenditures
Administration	$ 13,123.00	$ 16,375.04	$-0-	$ 16,375.04
Wages	1,110,666.00	733,618.14	-0-	733,618.14
Fringe Benefits	155,990.00	85,744.91	-0-	85,744.91
Services	32,544.00	22,510.28	-0-	22,510.28
Total	$1,312,323.00	$858,248.37	$-0-	$858,248.37

SCHEDULE (

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
ACCRUED EXPENDITURES BY PROGRAM ACTIVITY
SUBGRANT PERIOD FROM JUNE 1, 1976 THROUGH DECEMBER 31, 1976

Cost Category	Work Experience	Total
Administration	$ 16,375.04	$ 16,375.04
Wages	733,618.14	733,618.14
Fringe Benefits	85,744.91	85,744.91
Services	22,510.28	22,510.28
Total Actual to Date	$ 858,248.37	$ 858,248.37
Total Planned to Date	$1,312,323.00	$1,312,323.00

SCHEDULE D

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUMMARY SCHEDULE OF QUESTIONABLE EXPENDITURES
FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH DECEMBER 31, 1976

Cost Category	Cumulative Budget	Accrued Expenditures	Amount Questioned
Administration	$ 13,123.00	$ 16,375.04	
Wages	1,110,666.00	733,618.14	
Fringe Benefits	155,990.00	85,744.91	No amounts questioned.
Services	32,544.00	22,510.28	
Total	$1,312,323.00	$858,248.37	

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56091
COMPLIANCE AND INTERNAL CONTROL
FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH DECEMBER 31, 1976

A. Summary of Auditor's Observations and Recommendations

As part of our examination, we made a study of the system of internal accounting and administrative control to the extent we considered necessary to evaluate the system as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal and administrative accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the period June 1, 1976 to December 31, 1976 would not necessarily disclose all weaknesses in the system. In our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations.

Additional comments follow.

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56091
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH DECEMBER 31, 1976

Nature of Program and Use of CETA Funds

The subgrant award was designed for the purpose of providing work experience under Title I of the Comprehensive Employment and Training Act of 1973, as amended. The subgrant period was of short duration, from June 1, 1976 to December 31, 1976.

In our discussion of the program with the subgrantee's personnel we were advised that an organized approach had to be followed with respect to the expenditure of subgrant funds despite the short period involved because of the need to disburse such funds throughout the state among many agencies with which the subgrantee had to arrange for services to be performed at "local levels" in order to meet the objectives of the program. Our review of the situation disclosed that an organized approach was followed and that the accounting for and control over disbursement of CETA funds was reasonably efficient. The subgrantee was able to only disburse the amounts set forth in Schedule B included heretofore. However, because of the pressures involved with respect to meeting objectives of the program and to meet the financial commitments thereunder the subgrantee could not complete its subgrant close out until late March, 1977 since over two months were required by it to internally verify and approve final costs of the various agencies in an orderly manner prior to approval for final payments owing.

Under the circumstances described above the subgrantee, we believe, found it rather difficult to reasonably plan and draw its requests for CETA funds, however, we did note that a reasonable job was done to mid November, 1976 by it in attempting to match receipt of funds with anticipated expenditures on a cumulative monthly basis. The subgrantee had drawn $881,000.00 of CETA funds by November 23, 1976 which appeared to us to be reasonable in the circumstances. Additional funds of $90,000.00 were received on December 15, 1976 and $40,000.00 on January 11, 1977, for total funds drawn of $1,011,000.00. In drawing the additional funds in December and January it appears that the subgrantee may have anticipated a greater volume of program costs than the total of $858,248.37 which finally occurred upon windup of the program and the discharge of accruals and obligations thereunder.

While the subgrantee may possibly have been in a position not to draw additional CETA funds after November 23, 1976 we are not critical of the subgrantee in this respect.

EMPLOYMENT SECURITY DIVISION -
DEPARTMENT OF LABOR AND INDUSTRY
SUBGRANT NUMBER 76-56091
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE SUBGRANT PERIOD JUNE 1, 1976 THROUGH DECEMBER 31, 1976

We simply point out the foregoing situation because it suggests that short-term programs which authorize large amounts of expenditures could perhaps involve a greater degree of financial planning between the sponsor and Department of Labor in order to enable subgrantees to efficiently plan their own programs for the expenditure of funds to meet program objectives.

AUDIT REPORT

CETA GRANT NUMBER 30-6-101-10 AWARDED TO
MONTANA STATE EMPLOYMENT SERVICE

HELENA, MONTANA

GRANT PERIOD FROM AUGUST 1, 1975 TO SEPTEMBER 30, 1976

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Ernst & Ernst

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January 31, 1977

To the Montana State Employment Service:

We have examined the financial and related program records of the CETA Grant number 30-6-101-10 awarded to Montana State Employment Service (Grantee) for the period August 1, 1975 to September 30, 1976, including transactions to the final close out at December 13, 1976.

Our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, applicable to examinations of financial operations and reviews of compliance with applicable laws and regulations and the CETA financial audit guide issued by the U.S. Department of Labor. It included tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances.

The grant agreement was for $1,079,640.00 of which $1,042,779.47 was advanced to the subgrantee. Costs of the grant totaled $1,033,288.45 from which audit samples were drawn. Schedule D lists no questionable expenditures disclosed by our sample. Schedules A, B, and C have been prepared on the accrual basis of accounting.

In our opinion, these schedules present fairly the financial information contained therein which relates to the grant for the period August 1, 1975 to September 30, 1976, including transactions to the final close out at December 13, 1976.

We have also reviewed the areas of Compliance and Internal Control and the findings resulting from our review are presented in Schedule E.

This report is intended for use in connection with the grant to which it refers and should not be used for any other purpose.

Ernst & Ernst

E&E

SCHEDULE A

MONTANA STATE EMPLOYMENT SERVICE
GRANT NUMBER 30-6-101-10

STATUS OF FEDERAL FUNDS
GRANT PERIOD FROM AUGUST 1, 1975 TO SEPTEMBER 30, 1976
(INCLUDING TRANSACTIONS TO THE FINAL CLOSE OUT AT DECEMBER 13, 1976)

Cash on Hand - August 1, 1975		$ -0-
Increases		
Federal Cash Received	$1,042,779.47	
Program Income	-0-	
Total Increases		1,042,779.47
Total Cash Available		1,042,779.47
Decreases		
Gross Disbursements	1,033,288.45	
Adjustments	-0-	
Total Decreases		1,033,288.45
Cash on Hand - at final close out		$ 9,491.02

SCHEDULE B

MONTANA STATE EMPLOYMENT SERVICE
STATEMENT OF ACCRUED EXPENDITURES
FROM AUGUST 1, 1975 THROUGH SEPTEMBER 30, 1976
(INCLUDING TRANSACTIONS TO THE FINAL CLOSE OUT AT DECEMBER 13, 1976)

Cost Category	Cumulative Budget	Cash Disbursements	Accrued Expenditures
Administration	$ 149,295.00	$ 129,801.58	$ 129,801.58
Allowances	144,329.00	308,633.08	308,633.08
Wages	209,650.00	131,332.75	131,332.75
Fringe Benefits	18,005.00	16,167.14	16,167.14
Training	372,641.00	284,133.90	284,133.90
Services	185,720.00	163,220.00	163,220.00
Total	$1,079,640.00	$1,033,288.45	$1,033,288.45

SCHEDULE C

MONTANA STATE EMPLOYMENT SERVICE
ACCRUED EXPENDITURES BY PROGRAM ACTIVITY
GRANT PERIOD FROM AUGUST 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	Classroom Training	OJT	Work Experience	Services	Total
Administration	$ 93,780.34	$ 3,835.77	$ 15,278.55	$ 16,906.92	$ 129,801.5
Allowances	308,633.08				308,633.0
Wages			131,332.75		131,332.7
Fringe Benefits			16,167.14		16,167.1
Training	247,102.90	37,031.00			284,133.9
Services				163,220.00	163,220.0
	649,516.32	40,866.77	162,778.44	180,126.92	1,033,288.4
Reclassification by grantee	82.68	(8.77)	(34.44)	(38.92)	.5
Total actual to date	$649,599.00	$40,858.00	$162,744.00	$180,088.00	$1,033,289.0
Total planned to date	$560,431.00	$55,327.00	$257,006.00	$206,876.00	$1,079,640.0

SCHEDULE D

MONTANA STATE EMPLOYMENT SERVICE
SUMMARY SCHEDULE OF QUESTIONABLE EXPENDITURES
FROM THE GRANT PERIOD AUGUST 1, 1975 THROUGH SEPTEMBER 30, 1976

Cost Category	Cumulative Budget	Accrued Expenditures	Amount Questioned
Administration	$ 149,295.00	$ 129,801.58	
Allowances	144,329.00	308,633.08	
Wages	209,650.00	131,332.75	
Fringe Benefits	18,005.00	16,167.14	No costs questioned
Training	372,641.00	284,133.90	
Services	185,720.00	163,220.00	
Total	$1,079,640.00	$1,033,288.45	

MONTANA STATE EMPLOYMENT SERVICE
GRANT NUMBER 30-6-101-10
COMPLIANCE AND INTERNAL CONTROL
FOR THE GRANT PERIOD AUGUST 1, 1975 THROUGH SEPTEMBER 30, 1976

A. Summary of Auditor's Observations and Recommendations

As part of our examination, we made a study of the system of internal accounting and administrative control to the extent we considered necessary to evaluate the system as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal and administrative accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the period August 1, 1975 to September 30, 1976 would not necessarily disclose all weaknesses in the system. In our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations.

MONTANA STATE EMPLOYMENT SERVICE
GRANT NUMBER 30-6-101-10
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE GRANT PERIOD AUGUST 1, 1975 THROUGH SEPTEMBER 30, 1976

We believe that the following comments and other matters which came to our attention should be brought to the attention of the grantee.

Related Grant and Audit Thereof

The Employment Security Department coordinated the administration of this grant, number 30-6-101-10, with a related subgrant, number 76-56071 which was awarded by the Governor's Office Employment and Training Council to the Manpower Council also for a Comprehensive Employment Program. This latter subgrant covered the period from January 1, 1976 to September 30, 1976 whereas grant 30-6-101-10 covered the period from August 1, 1975 to September 30, 1976.

Because the accounting for the two grants was likewise coordinated by the Employment Security Division we performed our audit of the two as a single unit rather than as two separate units. However, we reviewed the Division's reconciliation of the funds and costs related to the two grants in connection with our review of close out reports prepared as of the close of the grant periods.

The Division received funds totaling $1,042,779.47 for grant 30-6-101-10 generally throughout the grant period, however, it did not commence receiving funds totaling $352,500.00 for subgrant 76-56071 until April 30, 1976 although costs were incurred prior to that date.

We have no reason to believe that the Division's reconciliation of costs incurred under the two grants was not fairly presented in its close out reports. However, we did note a few minor deficiencies which we do not consider to be important.

Cut-off Between Grant Periods

As a result of a change in the administration of disbursements of grant funds after July 1, 1975 and the appointment of the Employment Security Division to administer program disbursements the Division had to reconcile funds received and disbursed back to August 1, 1975 from records it obtained in October 1975.

MONTANA STATE EMPLOYMENT SERVICE
GRANT NUMBER 30-6-101-10
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE GRANT PERIOD AUGUST 1, 1975 THROUGH SEPTEMBER 30, 1976

There apparently was no audit of the grant period prior to August 1, 1975 by the Department of Labor and to effect an appropriate cut-off between grant periods appropriate adjustments were required to be made by the Division which may have tended to be arbitrary since estimates were required.

Our audit of disbursements along with those for the subgrant 76-56071 were for the period August 1, 1975 to September 30, 1976 and while we have no reason to believe that the aforementioned cut-off problem was not reasonably resolved, we recommend that there be a greater degree of cooperation between the Department of Labor and the grantee in the future to avoid similar situations.

Audit of Costs

In our test selections for audit we noted some deficiencies as described below which we believe should be brought to the attention of the grantee although they are relatively minor.

Allowance Payments:

In one situation, we noted that an applicant was originally denied bona fide participant status because of income in excess of O.E.O. poverty guidelines. Applicant recomputed his income and reapplied, meeting the guideline. Montana State Employment Service policy is to accept the applicant's income as reported where the applicant certifies his income on the "Family Income Statement" (Form CEP-3), which the applicant did in the present case. Nevertheless, written policy issued by the Montana State Employment Service states that this procedure is only a minimum step where the income data are of doubtful validity. The present case would probably fall into this category, suggesting that further investigation was warranted.

Approval of disbursements:

Approval authority for disbursements for invoices, claims, warrants, etc. can be improved if personnel who are assigned to audit such items prior to final processing for payment would initial the documents. Although final approval is exercised when payment is made the interim approval step would, we believe, improve internal control over disbursements. This is not done in all cases.

MONTANA STATE EMPLOYMENT SERVICE
GRANT NUMBER 30-6-101-10
COMPLIANCE AND INTERNAL CONTROL (CONTINUED)
FOR THE GRANT PERIOD AUGUST 1, 1975 THROUGH SEPTEMBER 30, 1976

Cash Receipts and Use of Funds

Due to the delay in receipt of grant funds from the Treasury Department the actual disbursements from August 1, 1975 to January 31, 1976 exceeded aggregate period to date receipts at the close of each month. There was a catch up in February, 1976 when receipts were in excess of disbursements which situation continued until the end of May, 1976. This appeared to result, in part, from no receipt of funds for the related subgrant 76-56071 until April 30, 1976 although costs were incurred for that subgrant prior to such date. Commencing in June disbursements again exceeded receipts at the end of each month, however, this was equalized in September when the final treasury check was received.

We simply point out the matching noted above since CETA regulations require a reasonably efficient use of funds to avoid possible overdraws. In the instant case the problem was not acute and the aggregate use of funds for the two grants appeared to be efficient under the circumstances.

General

For the future we recommend that interrelationships between grants be avoided if at all possible in order to alleviate problems similar to those described above. This requires a greater degree of coordination between the Department of Labor and the grantee not only with respect to improving the matching of receipts with estimated monthly disbursements but also with respect to avoidance of overlapping of one grant with another.

B. Discussion of Audit Results

The results of our audit and the matters discussed above were discussed with Division personnel who, we believe, concur with our recommendations.

This report is intended for use in connection with the grant to which it refers and should not be used for any other purpose.

AGENCY REPLIES

State of Montana
Office of The Governor
Helena 59601

THOMAS L. JUDGE
GOVERNOR

GOVERNOR'S EMPLOYMENT
& TRAINING COUNCIL

October 12, 1977

Legislative Audit Committee
Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

Gentlemen:

Enclosed are the audit drafts for the Employment Security Division CETA subgrants 76-56046, 76,56047, 76-56059, 76-56062, 76-56067, 76-56071, and 76-56091.

It is our understanding that Employment Security has submitted directly to your office their written response and copies of audit drafts for 76-56046, 76-56059, 76-56062, 76-56067, and 76-56071. This office directed the Employment Security Division to address the response to the Legislative Audit Committee through the Governor's Employment and Training Council. We did, however, receive an unsigned copy of the response.

We are in the process of asking the Employment Security Division to respond through our office as originally requested. Assuming this response is the same as the response originally submitted to your office, we will consider it satisfactory with one exception. The amount of $121,854.45 on Subgrant 76-56059 should be charged to Fiscal Year 1976.

As soon as we receive an official response from the Employment Security Division, it will be forwarded to your office.

No written response was required from the Employment Security Division for subgrants 76-56047 and 76-56091 as there were no questionable costs nor exceptions noted.

Sincerely,

BRUCE H. DeROSIER
Executive Director

Enclosure

JOB SERVICE
State of Montana
Dept. of Labor & Industry
Employment
Security
Division
P.O. Box 1728 • Helena, Montana 59601
(406) 449-5711

August 12, 1977

Legislative Audit Committee
Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, MT 59601

Gentlemen:

Following is our response to Mr. DeRosier's letter of July 12, 1977, transmitting the attached Discussion Drafts of the Audit Reports for CETA Subgrants 76-56046 and 76-56071.

Schedule E, Subgrant 76-56046:

1. This Agency concurs with the findings and recommendation. While we are not able to control receipt of funds, our monthly projections for drawing of funds will continue to be based on accurate estimates of only amounts needed to meet costs for the requested period. Our goal in this regard will continue to be attainment of that optimum operational level wherein cash draws will exactly match expenditures, resulting in the most efficient utilization of program funds possible.

Schedule E, Subgrant 76-56071:

1. The findings appear to be in accord with the exit interviews held with the Auditors. No findings or recommendations were noted which call for a response.

Sincerely,

Fred Barrett

FRED BARRETT, Administrator
Employment Security Division
Department of Labor & Industry

FB/CCW:lml
cc: Bruce H. DeRosier, Director
Governor's Employment and Training Council

Jobs for People • People for Jobs

JOB SERVICE
State of Montana
Dept of Labor & Industry
Employment
Security
Division
P. O. Box 1728 • Helena, Montana 596
Phone: (406) 449-2511

August 12, 1977

Legislative Audit Committee
Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, MT 59601

Gentlemen:

Following is our response to Mr. DeRosier's letter of July 12, 1977, transmitting the attached Discussion Drafts of the Audit Reports for CETA-PSE Subgrants 76-56059, 76-56062, and 76-56067.

Schedules D and E, Subgrant 76-56059:

1. Errors in Cost Transfers. We are in agreement with the recommendation that internal improvements were needed to avoid similar accruals errors. A new record keeping system to determine accruals in the PSE Programs has been instituted and will, we feel, preclude similar future errors.

2. Utilization of Subgrant Funds. We also feel that the efficiency with which subgrant funds were utilized is "fairly reasonable". While we recognize that improved effectiveness in the drawing of funds is highly desireable, and will respond positively to any improved procedures; we also feel that timely transfer of funds requested constitutes a part of this problem. We do not control this procedure. Funds are requested by the 15th of each month, for the month following. While receipt of these funds are to be on a weekly basis, we often do not receive any funding during the first several weeks of a month, with two, three, or four weeks of funding suddenly arriving in one transfer. Cash-on-hand is then excessive and certainly not in accord with the desires of any of the Agencies involved in these programs. With expenditures of one million plus dollars in the PSE Programs each month, a one or two week delay in receipt of funds negates all efforts to maintain an expenditure level which approximates receipts.

People for Jobs

3. Cost Reportings by Agencies with which the Subgrantee Contracts for Services. We are in agreement with these findings. A simplified revised invoice and report form has been adopted which partly corrects these deficiencies. However, problems of proper invoice completion by PSE User Agencies persist, despite frequent telephone and personal contacts as well as returning of the invoices for proper completion. One very apparent cause of these problems seems to be the handling of agency payroll/time-keeping, especially with the smaller user entities by individuals with little background or comprehension of sound book-keeping/accounting procedures. PSE, to ensure meeting timely payrolls for the many participants throughout the State, operates on a one month advance basis. We have instituted a procedure whereby an advance based on contract data, is sent, while the incorrectly prepared invoice is returned for proper completion, along with detailed itemization of those items not properly prepared.

   Changes in invoicing forms have corrected the reporting of hours worked.

   The practice of initialing invoices by the persons performing audit prior to payment, has been adopted as a regular procedure.

Schedule E, Subgrant 76-55062:

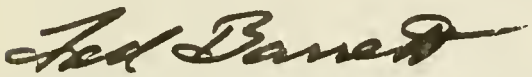
1. Errors in Cost Transfers. As noted above, we are in agreement with the findings and recommendations. A new record keeping system to determine accruals has been initiated.

2. Cost Reportings by Agencies with which the Subgrantee Contracts for Services. As noted in the related discussion above, for Subgrant 76-56059, we have instituted new invoicing/report form which have alleviated many of these problems. A policy of on-going personal, telephone and mail contacts along with itemized listings of invoice deficiencies has also been adopted.

Schedule E, Subgrant 76-56067:

1. We concur with the findings and have initiated corrective actions/procedures/form revisions as noted in the above responses for Subgrants 76-56059 and 76-56062.

Sincerely,



FRED BARRETT, Administrator
Employment Security Division
Department of Labor & Industry

FB/CCW:lml
cc: Bruce H. DeRosier, Director
Governor's Employment and Training Council
Attachment

JOB SERVICE

Employment Security Division

August 9, 1977

Legislative Audit Committee
Office of Legislative Auditor
State Capitol
Helena, Montana 59601

ATTN: Morris L. Brusett, Legislative Auditor

Gentlemen:

In response to your letter dated July 6, 1977, following is our response to recommendations pertaining to the audit report made by Ernst and Ernst on CETA-CEP Subgrant 30-6-101-10.

Allowance Payments:

In the instance where an applicant had been determined ineligible for CETA-CEP Program participation because family income was over the allowable income level; and then had recomputed earnings and reapplied, we are in concurrence that further investigation was warranted, prior to acceptance into the program.

The local Employment and Training CETA-CEP staff members who have the responsibility of determining participant eligibility for program services have written instructions that income data must be carefully examined before certification. While CETA regulations and our standard procedures establishes that a signed certification of income from the applicant provides adequate documentation of eligibility without the need of income verification; our procedures specify that investigation/verification be done, in addition to the signed certification, where reason to suspect the validity of the data exists.

We have reaffirmed this policy with all CETA-CEP staff members.

Approval of Disbursements:

We are in complete agreement that all invoices, claims, warrants, etc., must be initialed prior to payment by personnel who are assigned the audit responsibilities. This recommendation has been adopted, and is in place.

Jobs for Montana's Graduates

Cash Receipts and Use of Funds:

We strongly agree, and make every attempt to stabilize the cash flow and avoid excessive cash on hand. However, this is one of many situations we are unable to control.

Funding under subgrant 76-56071 did not become available until April, 1976; although a letter of agreement authorizing activities and expenditures was signed in December, 1975. The activities within the contract were operational immediately, but the monies for funding this subgrant was not received until April, 1976. In the interim, other related funding sources were utilized to make payments on this specific contract. Needless to say, when the initial monies were received to cover the prior three operational months, we were in a situation where cash on hand was excessive.

Every effort will be made in our operational procedures to make the disbursements, receipts, and cash on hand more compatible within the overall operation.

General Comments:

We disagree with the recommendation that interrelationship between grants be avoided. It is mandated by congress that linkages between programs be established.

Although interrelationships between grants does cause some reporting problems, the overall operation of the program by interrelationship of grants is much more beneficial in avoiding duplications and to provide increased service to the participants, which is the intent of the CETA-CEP Program.

It is the opinion of the CETA-CEP administrative staff that the financial and accounting controls, plus the compatability of the funds pertaining to receipts and disbursements will be equalized in future operations. The problems encountered in the first year operation were many and varied, and in most cases have been rectified.

Efforts will be made to become more efficient in grant interrelationship; however, the Department of Labor's policy is to encourage this type of operation and we must abide by their guidelines.

Sincerely,

FRED BARRETT, Administrator
Employment Security Division
Department of Labor & Industry

FB/CCW:dlh